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Special Analysis

POLAND: Prospects for Servicing Debt

The decline of the Polish economy apparently has been stopped, but recovery is not likely any time soon because of the burden of the hard currency debt. The Poles signed a rescheduling agreement with private banks in November, but foreign government creditors have not rescheduled the debt for 1982, and overdue payments of at least \$5 billion are likely at the end of the year. If martial law is lifted this month as anticipated, the Poles are certain to urge Western governments to lift sanctions and begin debt relief discussions. Poland almost certainly will not be able to obtain the nearly \$12 billion worth of debt relief and new credits it needs in 1983. [REDACTED]

Warsaw has been forced to run a trade surplus this year to try to pay interest owed to Western banks. Preliminary Polish data show that exports in the first 10 months of 1982 were equal to the pace in 1981 but that imports were down 28 percent. The trade surplus, however, meets only a small part of Warsaw's large financial needs. [REDACTED]

The reductions in imports have hindered economic recovery. Grain imports have been slashed, leading to declines in livestock production. Manufacturing industries have been hurt by shortages of imported spare parts and raw materials. [REDACTED]

Status of Rescheduling

On 3 November Western banks and the Polish Government signed an agreement to reschedule 95 percent of principal payments due to private banks in 1982. [REDACTED]

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[REDACTED] Poland paid the first interest installment on time, but the Poles probably will not be able to pay the nearly \$800 million due in the next two installments. [REDACTED]

Although Warsaw's financial condition has continued to deteriorate and overdue debts have soared, relations between the Poles and the bankers are somewhat smoother than earlier in the year. Polish officials who argued for a moratorium on Poland's debt seem to have lost influence, and threats by Western bankers to declare Polish loans in default have subsided. There are widespread reports, however, that banks in several Western countries are quietly and gradually writing off their Polish loans. [REDACTED]

The Poles now face a financial gap in 1982 of as much as \$6.7 billion, most of which is unrescheduled payments owed to Western governments and to CEMA creditors, Arab banks, Brazil, and suppliers. Debt relief from these creditors may cover \$1 billion to \$2 billion, but the gap probably will still be about \$5 billion at the end of 1983. [REDACTED]

Debt to Western Governments

Warsaw will owe Western governments \$7 billion next year, including unpaid debts due this year, and, in anticipation of the lifting of martial law, pressure already is building to open debt relief talks. Sweden, Austria, and Switzerland announced to the Paris Club last week that they were considering splitting from the other creditors to begin such discussions. [REDACTED]

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If the creditor governments decide to resume re-scheduling negotiations with the Poles, both sides will start far apart. Warsaw's anticipated request for total debt relief will be a first step in its efforts to secure resumption of large Western credits to revive the Polish economy. The governments, on the other hand, are primarily interested in getting Poland to make debt payments. [REDACTED]

Both sides are likely to be disappointed. Even before martial law, Western governments had stopped providing new money. Moreover, they will be competing with the banks for what promises to be a very limited amount of hard currency available for debt service. [REDACTED]

Outlook for 1983

More than \$13 billion in debt service is due next year. This includes:

- \$4.4 billion in arrears from 1982.
- \$5 billion in principal payments on medium- and long-term loans under original loan contracts.
- About \$4 billion in interest, including charges on rescheduling agreements. [REDACTED]

Assuming industrial production does not slump further, a current-account surplus--excluding interest--of \$1.4 billion is possible, leaving a financing requirement of \$11.7 billion. Since the outlook remains poor for new credits, however, the financing requirement for 1983 will have to be covered by debt relief, whether under formal agreements or by creditors' continued tolerance of overdue payments. [REDACTED]

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Serious discussions will not begin until after the first of the year. Negotiations then may be complicated by the failure to honor past agreements. Warsaw this year has met payments called for under the agreement of 1981 more or less on time but will have difficulty servicing two such agreements next year. [REDACTED]

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